

**CITY OF LEMMON**  
**AUDITED FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2011**

**CITY OF LEMMON**  
**CITY OFFICIALS**  
**DECEMBER 31, 2011**

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**Mayor:**

Neal Pinnow

**Governing Board:**

Vickie Barnes  
John Mattern  
Anita Kling  
Bryan Peterson  
Jen Ericsson  
Melissa Reede  
Garrett Schweitzer  
Peter Butterfield

**Finance Officer:**

Barb Bartell

**Attorney:**

Shane C. Penfield

# CITY OF LEMMON

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# CITY OF LEMMON

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CERTIFIED PUBLIC ACCOUNTANTS

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**WITH OFFICES IN**  
LEMMON, SOUTH DAKOTA  
MILLER, SOUTH DAKOTA

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND  
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

City Council  
City of Lemmon  
Lemmon, South Dakota

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lemmon, South Dakota, as of December 31, 2011, and for the year then ended, which collectively comprise the City's basic financial statements and have issued our report thereon dated July 13, 2012. The report on the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information was adverse because of financial statement deficiencies. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Current Audit Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Current Audit Findings and Questioned Costs as items 2011-01 through 2011-05 to be material weaknesses.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and

grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying Schedule of Current Audit Findings and Questioned Costs as item 2011-01.

The City of Lemmon's responses to the findings identified in our audit are described in the accompanying Schedule of Current Audit Findings and Questioned Costs. We did not audit the City's responses and, accordingly, we express no opinion on them.

We also noted certain additional matters that we reported to management of the City in a separate letter dated July 13, 2012.

This report is intended solely for the information and use of federal awarding agencies and pass-through entities, the South Dakota Legislature, state granting agencies, and the governing board and management of the City of Lemmon, South Dakota, and is not intended to be and should not be used by anyone other than these specified parties. However, as required by South Dakota Codified Law 4-11-11 and OMB Circular A-133 § 320, this report is a matter of public record and its distribution is not limited.

*Kahler, Benschel & Anderson, LLP*

July 13, 2012

**KOHLMAN, BIRSCHBACH & ANDERSON, LLP**  
CERTIFIED PUBLIC ACCOUNTANTS

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WITH OFFICES IN  
LEMMON, SOUTH DAKOTA  
MILLER, SOUTH DAKOTA

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE  
A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

City Council  
City of Lemmon  
Lemmon, South Dakota

**Compliance**

We have audited the City of Lemmon, South Dakota, compliance with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on the City's major federal program for the year ended December 31, 2011. The City's major federal program is identified in the summary of auditors' results section of the accompanying Schedule of Current Audit Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City of Lemmon, South Dakota, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2011. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Schedule of Current Audit Findings and Questioned Costs as item 2011-01.

**Internal Control Over Compliance**

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements

that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Current Audit Findings and Questioned Costs as item 2011-01 to be a material weakness.

The City of Lemmon's responses to the findings identified in our audit are described in the accompanying Schedule of Current Audit Findings and Questioned Costs. We did not audit the City's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of federal awarding agencies and pass-through entities, the South Dakota Legislature, state granting agencies, the governing board and management of the City of Lemmon, South Dakota, and is not intended to be and should not be used by anyone other than these specified parties. However, as required by South Dakota Codified Law 4-11-11 and OMB Circular A-133 §\_\_320, this report is matter of public record and its distribution is not limited.

*Kahlum, Smith & Anderson, LLP*

July 13, 2012



**CITY OF LEMMON**  
**SCHEDULE OF PRIOR AUDIT FINDINGS**  
**DECEMBER 31, 2011**

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**PRIOR AUDIT FINDINGS:**

**2010-01**

A material weakness was reported for a lack of segregation of duties for revenues, cash, inventories, taxes and other receivables, indebtedness, capital assets, payables and equity. This condition is restated as current other audit finding 2011-02.

**2010-02**

The City does not have an internal control system designed to provide for the preparation of the annual financial statements in accordance with generally accepted accounting principles (GAAP). As auditors, we were requested to draft the financial statements. This comment has not been corrected and is restated as current other audit finding 2011-03.

**2010-03**

A material weakness was reported for not maintaining proper fixed asset records to support the amounts reported for general fixed assets, enterprise fixed assets and depreciation expense; therefore, the City is not in compliance with SDCL 5-24-4. This comment has not been corrected and is restated as current other federal audit finding 2011-01.

**2010-04**

A material weakness was reported for not maintaining sufficient inventory records for the governmental activities, business-type activities and each major fund. The City of Lemmon has an inventory listing but it does not contain any values; therefore, the City is not in compliance with SDCL 5-24-2. This comment has not been corrected and is restated as current audit finding 2011-04.

**2010-05**

No internal control structure to provide for the recording of all necessary material adjustments. This comment has not been corrected and is restated as current other audit finding 2010-05.

**2010-06**

A material weakness was reported for not developing a budget for all governmental funds and therefore is not in compliance with SDCL 9-21-2. A material weakness was also reported for overspending an adopted budget; therefore, the City is not in compliance with SDCL 9-21-9. This comment has been corrected.

**CITY OF LEMMON**  
**SCHEDULE OF CURRENT AUDIT FINDINGS AND QUESTIONED COSTS**  
**DECEMBER 31, 2011**

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**SUMMARY OF THE INDEPENDENT AUDITORS' RESULTS:**

**Financial Statements:**

- a. An adverse opinion on the financial statements of each opinion unit was issued because of financial statement deficiencies.
- b. Material weaknesses were disclosed by our audit of the financial statements. They are described in findings 2011-01 through 2011-05.
- c. Our audit did not disclose any noncompliance which was material to the financial statements.

**Federal Awards:**

- d. Material weaknesses were disclosed for internal control over major federal programs affecting the Equipment and Real Property compliance requirement as described in finding 2011-01.
- e. An unqualified opinion was issued on compliance with the requirements applicable to major programs.
- f. Our audit disclosed audit findings that are required to be disclosed in accordance with the Office of Management and Budget Circular A-133, §.510(a). See finding number 2011-01.
- g. The federal award tested as a major program was:
  - a. Airport Improvement Program #20.106
- h. The dollar threshold used to distinguish between Type A and Type B federal award programs was \$300,000.
- i. City of Lemmon, South Dakota, did not qualify as a low-risk entity

**CURRENT FEDERAL AUDIT FINDINGS:**

**Internal Control-Related Findings and Federal Compliance-Related Audit Findings and Questioned Costs - Material Weaknesses:**

2011-01

The major federal program affected is Airport Improvement Program - CFDA #20.106, Federal Award Year 2011, U.S. Department of Transportation.

**Criteria**

The Equipment and Real Property compliance requirement requires organizations to maintain an adequate equipment and property management system. Fixed asset records should include comprehensive lists of all land, buildings, improvements and equipment that have a cost greater than the City's capitalization policy. The City's lists of such assets were found to be incomplete and lacking in supporting documentation.

**Condition Found**

Fixed asset records were inadequate.

**Questioned Costs**

There are no questioned costs involved.

**CITY OF LEMMON**  
**SCHEDULE OF CURRENT AUDIT FINDINGS AND QUESTIONED COSTS**  
**DECEMBER 31, 2011**  
**(Continued)**

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**Recommendation**

The City should conduct a comprehensive physical inventory of all fixed assets and update the subsidiary records accordingly. Costs (or estimated costs) of the assets should be properly documented.

**Corrective Action Plan**

The City agrees with the finding and will work on updating their records as soon as possible. The contact person for this finding is Neal Pinnow, Mayor.

**CURRENT OTHER AUDIT FINDINGS:**

**Internal Control-Related Findings - Material Weaknesses:**

2011-01 (also see detail under Current Federal Audit Findings)

**Criteria**

The City of Lemmon is responsible for maintaining proper general fixed assets, enterprise fixed assets, and depreciation records.

**Condition Found**

A material weakness was reported for not maintaining proper fixed asset records to support the amounts reported for general fixed assets, enterprise fixed assets, and depreciation expense; therefore, the City is not in compliance with SDCL 5-24-4.

**Effect**

This has resulted in diminished controls over fixed assets and can result in misleading information being presented to users of the financial statements.

**Recommendation**

We recommend general fixed assets, enterprise fixed assets, and depreciation records be established and maintained.

**Corrective Action Plan**

The City of Lemmon is continuing its work on correcting this deficiency. The Mayor, Neil Pinnow, is responsible for the corrective action plan for this finding.

2011-02

**Criteria**

Internal control can help the City achieve its performance targets and prevent loss of resources. It can help ensure reliable financial reporting and it can help ensure that the City complies with laws and regulations.

**Condition Found**

A significant deficiency and material weakness was reported for a lack of segregation of duties for revenues, cash, indebtedness, taxes and other receivables, inventories, payables, indebtedness, capital assets, equity, expenditures, and payroll, which could result in errors not being found in a timely manner.

**CITY OF LEMMON**  
**SCHEDULE OF CURRENT AUDIT FINDINGS AND QUESTIONED COSTS**  
**DECEMBER 31, 2011**  
**(Continued)**

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Effect

The City of Lemmon, South Dakota, has a limited number of employees who prepare all records for revenues, cash, taxes and other receivables, inventories, payables, indebtedness, capital assets, equity, expenditures, and payroll. This is undesirable from an internal control viewpoint, and could result in a loss of control over accounting transactions and errors not being found in a timely manner.

Recommendation

We recommend the City Council take a more active role in their oversight of revenues, cash, taxes and other receivables, inventories, payables, indebtedness, capital assets, equity, expenditures, and payroll.

Corrective Action Plan

The City of Lemmon has determined that it is not cost beneficial to employ additional personnel just to be able to adequately segregate duties for revenues, cash, taxes and other receivables, inventories, payables, indebtedness, capital assets, equity, expenditures, and payroll and accepts the risks involved. The Board is aware of the problem and will attempt to provide compensating controls wherever and whenever possible and practical. The Mayor, Neal Pinnow, is responsible for the corrective action plan for this finding.

2011-03

Criteria

An organization's internal control structure should provide for the preparation of financial statements in accordance with generally accepted accounting principles (GAAP).

Condition Found

The City does not have an internal control system designed to provide for the preparation of the annual financial statements being audited, including required footnotes and disclosures, in accordance with generally accepted accounting principles. As auditors, we were requested to draft the financial statements.

Effect

This condition may affect the City's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Recommendation

This circumstance is not unusual in an organization of your size. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Corrective Action Plan

Both management and the City Council have been informed of this condition and are confident that the information is accurate and are willing to accept this risk. The Finance Officer, Barb Bartell, is responsible for the corrective action plan for this finding.

**CITY OF LEMMON**  
**SCHEDULE OF CURRENT AUDIT FINDINGS AND QUESTIONED COSTS**  
**DECEMBER 31, 2011**  
**(Continued)**

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2011-04

Criteria

The City of Lemmon is responsible for maintaining accurate records for amounts reported as inventories for governmental activities, business-type activities and each major fund.

Condition Found

A material weakness was reported for not maintaining sufficient inventory records for the governmental activities, business-type activities and each major fund. The City of Lemmon has an inventory listing, but the report is not complete; therefore, the City is not in compliance with SDCL 5-24-2.

Effect

This has resulted in diminished controls over inventories and can result in misleading information being presented to users of the financial statements.

Recommendation

We recommend the City Council prepare an inventory listing using the actual cost or the estimated cost at the time of acquisition.

Corrective Action Plan

The City will attempt to complete an accurate inventory listing in the future. The contact person for this finding is Neal Pinnow, Mayor. The anticipated completion date is June 30, 2012.

2011-05

Criteria

An organization's internal control structure should provide for the recording of all necessary material adjustments in order to ensure that accounting records are in accordance with generally accepted accounting principles.

Condition Found

During the course of our engagement, we proposed material audit adjustments that would not have been identified as a result of the City's existing internal controls, and therefore could have resulted in a material misstatement of the City's financial statements.

Effect

This condition may affect the City's ability to record, process, summarize, and report financial statement data consistent with the assertions of management in the financial statements.

Recommendation

This circumstance is not unusual in an organization of your size. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

**CITY OF LEMMON**  
**SCHEDULE OF CURRENT AUDIT FINDINGS AND QUESTIONED COSTS**  
**DECEMBER 31, 2011**  
**(Continued)**

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Corrective Action Plan

The City of accepts the risks associated with this deficiency. The Board is aware of the problem and will attempt to provide compensating controls wherever and whenever possible and practical. The contact person for this finding is Neal Pinnow, Mayor.

Closing Conference

The contents of this report were discussed with Neal Pinnow, Mayor; Barb Bartell, Finance Officer; Annette Dalzell, Assistant Finance Officer; and Melissa Reede, Council Member; on May 2, 2012.

**KOHLMAN, BIERSCHBACH & ANDERSON, LLP**  
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**WITH OFFICES IN**  
LEMMON, SOUTH DAKOTA  
MILLER, SOUTH DAKOTA

**INDEPENDENT AUDITORS' REPORT**

City Council  
City of Lemmon  
Lemmon, South Dakota

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Lemmon, South Dakota, as of December 31, 2011, and for the year then ended, which collectively comprise the City's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Lemmon Housing and Redevelopment Commission, a discretely presented component unit, which represents 100 percent of the assets, net assets, and revenues of the aggregate discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Lemmon Housing and Redevelopment Commission, is based on the report of the other auditor.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

The City has not prepared notes to the financial statements. As a result, numerous disclosures required by U.S. generally accepted accounting principles are not made a part of these financial statements. The amount by which this departure would affect these financial statements is not reasonably determinable.

Management has not recorded certain general fixed assets, including land, buildings, and equipment, in governmental activities and business-type activities and, accordingly, has not recorded depreciation expense on those assets. Accounting principles generally accepted in the United States of America require that those fixed assets be capitalized and depreciated, which would increase the assets, net assets, and expenses of the governmental activities and business-type activities. The amount by which this departure would affect the assets, net assets, and expenses of the governmental activities and business-type activities is not reasonably determinable.

Management has not maintained proper inventory records in the governmental activities, business-type activities, and each major fund. Accounting principles generally accepted in the United States of America require that inventory be properly recorded, which would affect assets, net assets, and expenses of the governmental activities, business-type activities and each major fund. The amount by which this departure would affect the assets, net assets and expenses of the governmental activities, business-type activities and each major fund is not reasonably determinable.

In our opinion, because of the effects of the matters discussed in the third, fourth, and fifth paragraphs, the financial statements referred to above do not present fairly, in all material respects, the financial position of the activities of the primary government of the City of Lemmon, South Dakota, as of December 31, 2011, or the changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated July 13, 2012, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The City has omitted the Management's Discussion and Analysis (MD&A) and the Budgetary Comparison Schedules that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The Schedule of Expenditures of Federal Awards, which is required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and the combining nonmajor fund financial statements listed in the Table of Contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Because of the significance of the matters described in the third, fourth, and fifth paragraphs, it is inappropriate to and we do not express an opinion on the supplementary information referred to above.

*Kahlman, Dinnickhal & Anderson, LLP*

July 13, 2012



**CITY OF LEMMON**  
**STATEMENT OF NET ASSETS**  
**DECEMBER 31, 2011**

	PRIMARY GOVERNMENT			9/30/2011
	Governmental Activities	Business-Type Activities	Total	Component Unit
<b>ASSETS:</b>				
Cash and cash equivalents	\$ 242,334	\$ 287,760	\$ 530,094	\$ 148,303
Investments	419,619	-	419,619	58,333
Accounts receivable, net	132,888	24,077	156,965	14,251
Inventories	27,260	-	27,260	396
Other assets	5,521	-	5,521	6,038
Restricted Assets:				
Cash and cash equivalents	43,300	41,121	84,421	8,495
Investments	-	500,000	500,000	-
Capital Assets:				
Land, improvements and construction in progress	-	-	-	94,164
Other capital assets, net of depreciation	1,532,165	2,174,335	3,706,500	1,290,268
<b>TOTAL ASSETS</b>	<u>\$ 2,403,087</u>	<u>\$ 3,027,293</u>	<u>\$ 5,430,380</u>	<u>\$ 1,620,248</u>
<b>LIABILITIES:</b>				
Accounts payable	\$ -	\$ -	\$ -	\$ 1,411
Other current liabilities	712	44,141	44,853	26,240
Deferred revenue	-	-	-	16
Noncurrent Liabilities:				
Due within one year	46,347	26,561	72,908	24,308
Due in more than one year	69,302	1,945	71,247	582,386
<b>TOTAL LIABILITIES</b>	<u>116,361</u>	<u>72,647</u>	<u>189,008</u>	<u>634,361</u>
<b>NET ASSETS:</b>				
Invested in capital assets, net of related debt	1,429,838	2,075,933	3,505,771	778,850
Restricted for:				
Debt service purposes	5,000	-	5,000	-
Permanently restricted purposes:				
Non-expendable	77,179	-	77,179	-
Other purposes	2,886	500,000	502,886	-
Unrestricted	771,823	378,713	1,150,536	207,037
<b>TOTAL NET ASSETS</b>	<u>2,286,726</u>	<u>2,954,646</u>	<u>5,241,372</u>	<u>985,887</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 2,403,087</u>	<u>\$ 3,027,293</u>	<u>\$ 5,430,380</u>	<u>\$ 1,620,248</u>

**CITY OF LEMMON**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED DECEMBER 31, 2011**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			9/30/2011 Component Unit
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-Type Activities	Total	
Primary Government:								
Governmental Activities:								
General government	\$ 153,963	\$ 30,499	\$ -	\$ -	\$ (123,464)	\$ -	\$ (123,464)	
Public safety	217,837	10,843	6,867	-	(200,127)	-	(200,127)	
Public works	445,118	186,769	73,504	513,512	328,667	-	328,667	
Health and welfare	184,692	175	-	-	(184,517)	-	(184,517)	
Culture and recreation	185,224	48,741	889	7,000	(128,594)	-	(128,594)	
Conservation and development	96,420	-	-	-	(96,420)	-	(96,420)	
Miscellaneous expenditures	-	39,815	-	-	39,815	-	39,815	
*Interest on long-term debt	896	-	-	-	(896)	-	(896)	
Total Governmental Activities	1,284,150	316,842	81,260	520,512	(365,536)	-	(365,536)	
Business-Type Activities:								
Water	188,344	249,979	-	-	-	61,635	61,635	
Sewer	23,689	75,083	-	-	-	51,394	51,394	
Total Business-Type Activities	212,033	325,062	-	-	-	113,029	113,029	
Total Primary Government	\$1,496,183	\$ 641,904	\$ 81,260	\$ 520,512	(365,536)	113,029	(252,507)	
Component Unit:								
Housing and Redevelopment								
Commission	\$ 372,841	\$ 192,596	\$ 86,134	\$ -	-	-	-	\$ (94,111)
General Revenues:								
Taxes:								
Property taxes					465,865	-	465,865	-
Sales taxes					536,757	-	536,757	-
State shared revenues					10,956	-	10,956	-
Grants and contributions not restricted to specific programs					22,182	-	22,182	47,520
Unrestricted investment earnings					8,782	5,748	14,530	1,383
Miscellaneous revenue					24,695	-	24,695	1,200
Transfers					90,377	(90,377)	-	-
Total General Revenues and Transfers					1,159,614	(84,629)	1,074,985	50,103
Change in Net Assets					794,078	28,400	822,478	(44,008)
Net Assets - Beginning					1,492,648	2,926,246	4,418,894	1,029,895
Net Assets - Ending					\$ 2,286,726	\$ 2,954,646	\$ 5,241,372	\$ 985,887

\*The City does not have interest expense related to the functions presented above. This amount includes indirect interest expense on general long-term debt.

**CITY OF LEMMON**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**DECEMBER 31, 2011**

	General Fund	Airport Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS:</b>				
Cash and cash equivalents	\$ 207,905	\$ -	\$ 34,429	\$ 242,334
Investments	274,257	-	145,362	419,619
Taxes receivable - delinquent	28,851	-	-	28,851
Accounts receivable, net	2,184	-	-	2,184
Unbilled accounts receivable	12,941	-	-	12,941
Due from Capital Project Funds	16,149	-	-	16,149
Due from Special Revenue Funds	16,964	-	-	16,964
Due from General Fund	-	-	12,408	12,408
Due from state government	87,671	1,241	-	88,912
Inventory of supplies	27,260	-	-	27,260
Prepaid expenses	5,521	-	-	5,521
Restricted cash and cash equivalents	43,300	-	-	43,300
<b>TOTAL ASSETS</b>	<b>\$ 723,003</b>	<b>\$ 1,241</b>	<b>\$ 192,199</b>	<b>\$ 916,443</b>
<b>LIABILITIES AND FUND BALANCES:</b>				
<b>LIABILITIES:</b>				
Due to General Fund	\$ -	\$ 16,149	\$ 16,964	\$ 33,113
Due to Special Revenue Funds	12,408	-	-	12,408
Accrued taxes payable	712	-	-	712
Deferred revenue	28,851	-	-	28,851
<b>TOTAL LIABILITIES</b>	<b>41,971</b>	<b>16,149</b>	<b>16,964</b>	<b>75,084</b>
<b>FUND BALANCES:</b>				
Nonspendable	27,260	-	49,919	77,179
Restricted:				
Bamble Petrified Park purposes	-	-	125,316	125,316
Landfill Building	5,000	-	-	5,000
Library Expansion	1,341	-	-	1,341
Playground Equipment	1,545	-	-	1,545
Assigned:				
Fire Department	153,245	-	-	153,245
General Parks	2,000	-	-	2,000
Police Department	12,000	-	-	12,000
Street Department	8,108	-	-	8,108
Swimming Pool	5,000	-	-	5,000
TV Association	5,725	-	-	5,725
Unassigned	459,808	(14,908)	-	444,900
<b>TOTAL FUND BALANCES</b>	<b>681,032</b>	<b>(14,908)</b>	<b>175,235</b>	<b>841,359</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 723,003</b>	<b>\$ 1,241</b>	<b>\$ 192,199</b>	<b>\$ 916,443</b>

**CITY OF LEMMON**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET**  
**TO THE STATEMENT OF NET ASSETS**  
**DECEMBER 31, 2011**

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Total Fund Balances - Governmental Funds \$ 841,359

Amounts reported for governmental activities in the statement of net assets  
are different because:

Capital assets used in governmental activities are not financial resources and therefore  
are not reported in the funds. 1,532,165

Long-term liabilities, including bonds payable and accrued leave payable, are not due and  
payable in the current period and therefore are not reported in the funds.

Accrued leave	\$ 13,322	
Other long-term debt	<u>102,327</u>	(115,649)

Assets, such as taxes receivable (delinquent) and special assessment receivables (current,  
delinquent and deferred), are not available to pay for current period expenditures and  
therefore are deferred in the funds.

Property taxes	<u>\$ 28,851</u>	<u>28,851</u>
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Net Assets - Governmental Activities \$ 2,286,726

	General Fund	Airport Fund	Other Governmental Funds	Total Governmental Funds
Public Safety:				
Police	165,574	-	-	165,574
Fire	51,033	-	-	51,033
Public Works:				
Highways and streets	236,420	-	-	236,420
Sanitation	176,171	-	-	176,171
Airport	23,013	-	-	23,013
Cemeteries	-	-	11,033	11,033
Health and Welfare:				
Health	3,797	-	-	3,797
Home health	1,000	-	-	1,000
Mental health centers	1,000	-	-	1,000
Hospitals, nursing homes and rest homes	178,895	-	-	178,895
Culture and Recreation:				
Recreation	50,688	-	-	50,688
Parks	90,171	-	848	91,019
Libraries	43,517	-	-	43,517
Conservation and Development:				
Economic development and assistance (industrial development)	68,570	-	-	68,570
Economic opportunity	27,850	-	-	27,850
Debt Service	39,624	-	-	39,624
Capital Outlay	100,000	519,931	-	619,931
<b>TOTAL EXPENDITURES</b>	<b>1,411,197</b>	<b>519,931</b>	<b>11,881</b>	<b>1,943,009</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>11,462</b>	<b>(6,419)</b>	<b>10,236</b>	<b>15,279</b>
<b>OTHER FINANCING SOURCES:</b>				
Transfers in	90,377	-	-	90,377
Sale of municipal property	16,112	-	-	16,112
Compensation for loss or damage to capital assets	6,279	-	-	6,279
Long-term debt issued	100,000	-	-	100,000
<b>TOTAL OTHER FINANCING SOURCES</b>	<b>212,768</b>	<b>-</b>	<b>-</b>	<b>212,768</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>224,230</b>	<b>(6,419)</b>	<b>10,236</b>	<b>228,047</b>
<b>FUND BALANCE - BEGINNING</b>	<b>456,802</b>	<b>(8,489)</b>	<b>164,999</b>	<b>613,312</b>
<b>FUND BALANCE - ENDING</b>	<b>\$ 681,032</b>	<b>\$ (14,908)</b>	<b>\$ 175,235</b>	<b>\$ 841,359</b>

**CITY OF LEMMON**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES**  
**DECEMBER 31, 2011**

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Net Change in Fund Balances - Total Governmental Funds \$ 228,047

Amounts reported for governmental activities in the statement of activities  
are different because:

This amount represents capital asset purchases which are reported as expenditures on the  
fund financial statements but increase assets on the government-wide statements. 619,931

Payment of principal on long-term debt is an expenditure in the governmental funds but the  
payment reduces long-term liabilities in the statement of net assets.

Other long-term debt \$ 38,728 38,728

The issuance of long-term debt is an other financing source in the fund statements but an  
increase in long-term liabilities on the government-wide statements.

Other long-term debt \$100,000 (100,000)

Governmental funds recognize expenditures for amounts of compensated absences actually  
paid to employees with current financial resources during the fiscal year. Amounts of  
compensated absences earned by employees are not recognized in the funds. In the  
statement of activities, expenses for these benefits are recognized when the employees  
earn leave credits.

Vacation leave \$ (200) 200

The fund financial statement governmental fund property tax accruals differ from the  
government-wide statement property tax accruals in that the fund financial statements  
require the amounts to be "available".

7,172

Change in Net Assets of Governmental Activities \$ 794,078

**CITY OF LEMMON**  
**BALANCE SHEET**  
**PROPRIETARY FUNDS**  
**DECEMBER 31, 2011**

	Business-Type Activities Enterprise Funds		
	Water Fund	Sewer Fund	Totals
<b>ASSETS:</b>			
Current Assets:			
Cash and cash equivalents	\$ 184,304	\$ 103,456	\$ 287,760
Accounts receivable, net	18,094	5,983	24,077
<b>Total Current Assets</b>	<b>202,398</b>	<b>109,439</b>	<b>311,837</b>
Noncurrent Assets:			
Restricted cash and cash equivalents	41,121	-	41,121
Restricted investments	-	500,000	500,000
Capital Assets:			
Improvements other than buildings	2,828,835	-	2,828,835
Machinery and equipment	11,350	52,386	63,736
Less: accumulated depreciation	(693,332)	(24,904)	(718,236)
<b>Total Noncurrent Assets</b>	<b>2,187,974</b>	<b>527,482</b>	<b>2,715,456</b>
<b>TOTAL ASSETS</b>	<b>\$ 2,390,372</b>	<b>\$ 636,921</b>	<b>\$ 3,027,293</b>
<b>LIABILITIES:</b>			
Current Liabilities:			
Notes payable	\$ 26,561	\$ -	\$ 26,561
Customer deposits	44,141	-	44,141
<b>Total Current Liabilities</b>	<b>70,702</b>	<b>-</b>	<b>70,702</b>
Noncurrent Liabilities:			
Accrued leave payable	1,674	271	1,945
<b>Total Noncurrent Liabilities</b>	<b>1,674</b>	<b>271</b>	<b>1,945</b>
<b>NET ASSETS:</b>			
Invested in capital assets, net of related debt	2,120,292	27,482	2,147,774
Restricted net assets, restricted for:			
Equipment repair and/or replacement	-	500,000	500,000
Unrestricted net assets	197,704	109,168	306,872
<b>Total Net Assets</b>	<b>2,317,996</b>	<b>636,650</b>	<b>2,954,646</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 2,390,372</b>	<b>\$ 636,921</b>	<b>\$ 3,027,293</b>

**CITY OF LEMMON**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS**  
**PROPRIETARY FUNDS**  
**YEAR ENDED DECEMBER 31, 2011**

	Business-Type Activities Enterprise Funds		
	Water Fund	Sewer Fund	Totals
OPERATING REVENUE:			
Charges for goods and services	\$ 249,979	\$ 75,083	\$ 325,062
TOTAL OPERATING REVENUE	<u>249,979</u>	<u>75,083</u>	<u>325,062</u>
OPERATING EXPENSES:			
Personal services	47,834	10,278	58,112
Other current expense	<u>138,399</u>	<u>13,411</u>	<u>151,810</u>
TOTAL OPERATING EXPENSES	<u>186,233</u>	<u>23,689</u>	<u>209,922</u>
OPERATING INCOME	<u>63,746</u>	<u>51,394</u>	<u>115,140</u>
NONOPERATING REVENUE (EXPENSE):			
Investment earnings	1,489	4,259	5,748
Interest expense	<u>(2,111)</u>	<u>-</u>	<u>(2,111)</u>
TOTAL NONOPERATING REVENUE (EXPENSE)	<u>(622)</u>	<u>4,259</u>	<u>3,637</u>
INCOME BEFORE TRANSFERS	63,124	55,653	118,777
TRANSFERS OUT	<u>(1,489)</u>	<u>(88,888)</u>	<u>(90,377)</u>
CHANGE IN NET ASSETS	61,635	(33,235)	28,400
NET ASSETS - BEGINNING	<u>2,256,361</u>	<u>669,885</u>	<u>2,926,246</u>
NET ASSETS - ENDING	<u>\$ 2,317,996</u>	<u>\$ 636,650</u>	<u>\$ 2,954,646</u>



**CITY OF LEMMON**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**YEAR ENDED DECEMBER 31, 2011**

	Business-Type Activities Enterprise Funds		
	Water Fund	Sewer Fund	Totals
<b>CASH FLOWS FROM OPERATING</b>			
<b>ACTIVITIES:</b>			
Cash receipts from customers	\$ 249,979	\$ 75,083	\$ 325,062
Cash payments to employees for services	(47,834)	(10,278)	(58,112)
Cash payments to suppliers of goods and services	<u>(136,751)</u>	<u>(13,140)</u>	<u>(149,891)</u>
Net cash provided by operating activities	<u>65,394</u>	<u>51,665</u>	<u>117,059</u>
<b>CASH FLOWS FROM NONCAPITAL</b>			
<b>FINANCING ACTIVITIES:</b>			
Transfers out	<u>(1,489)</u>	<u>(88,888)</u>	<u>(90,377)</u>
Net cash used by noncapital financing activities	<u>(1,489)</u>	<u>(88,888)</u>	<u>(90,377)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED</b>			
<b>FINANCING ACTIVITIES:</b>			
Interest paid on capital debt	(2,111)	-	(2,111)
Principal paid on capital debt	<u>(25,232)</u>	<u>-</u>	<u>(25,232)</u>
Net cash used by capital and related financing activities	<u>(27,343)</u>	<u>-</u>	<u>(27,343)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Cash received for interest	<u>1,489</u>	<u>4,259</u>	<u>5,748</u>
Net cash provided by investing activities	<u>1,489</u>	<u>4,259</u>	<u>5,748</u>
<b>NET INCREASE (DECREASE) IN CASH</b>			
<b>AND CASH EQUIVALENTS</b>	38,051	(32,964)	5,087
<b>BALANCES - BEGINNING</b>	<u>187,374</u>	<u>136,420</u>	<u>323,794</u>
<b>BALANCES - ENDING</b>	<u>\$ 225,425</u>	<u>\$ 103,456</u>	<u>\$ 328,881</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH</b>			
<b>PROVIDED BY OPERATING ACTIVITIES:</b>			
Operating income	\$ 63,746	\$ 51,394	\$ 115,140
Change in assets and liabilities:			
Customer deposits	785	-	785
Accrued leave payable	<u>863</u>	<u>271</u>	<u>1,134</u>
Net cash provided by operating activities	<u>\$ 65,394</u>	<u>\$ 51,665</u>	<u>\$ 117,059</u>

## **SUPPLEMENTARY INFORMATION**

**CITY OF LEMMON**  
**COMBINING BALANCE SHEET**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**DECEMBER 31, 2011**

	Bambl Petrified Park Fund	Cemetery Perpetual Care Fund	Total Nonmajor Governmental Funds
<b>ASSETS:</b>			
Cash and cash equivalents	\$ 34,429	\$ -	\$ 34,429
Investments	78,479	66,883	145,362
Due from General Fund	12,408	-	12,408
<b>TOTAL ASSETS</b>	<u><b>\$ 125,316</b></u>	<u><b>\$ 66,883</b></u>	<u><b>\$ 192,199</b></u>
<b>LIABILITIES AND FUND BALANCES:</b>			
<b>LIABILITIES:</b>			
Due to General Fund	\$ -	\$ 16,964	\$ 16,964
<b>TOTAL LIABILITIES</b>	<u>-</u>	<u>16,964</u>	<u>16,964</u>
<b>FUND BALANCES:</b>			
Nonspendable	-	49,919	49,919
Restricted:			
Bambl Petrified Park purposes	125,316	-	125,316
<b>TOTAL FUND BALANCES</b>	<u>125,316</u>	<u>49,919</u>	<u>175,235</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u><b>\$ 125,316</b></u>	<u><b>\$ 66,883</b></u>	<u><b>\$ 192,199</b></u>

**CITY OF LEMMON**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**YEAR ENDED DECEMBER 31, 2011**

	Bamle Petrified Park Fund	Cemetery Perpetual Care Fund	Total Nonmajor Governmental Funds
<b>REVENUES:</b>			
Charges for Goods and Services:			
Cemetery	\$ -	\$ 1,920	\$ 1,920
Miscellaneous Revenue:			
Investment earnings	764	1,062	1,826
Contributions and donations from private sources	<u>18,371</u>	<u>-</u>	<u>18,371</u>
<b>TOTAL REVENUE</b>	<u>19,135</u>	<u>2,982</u>	<u>22,117</u>
<b>EXPENDITURES:</b>			
Public Works:			
Cemeteries	-	11,033	11,033
Culture and Recreation:			
Parks	<u>848</u>	<u>-</u>	<u>848</u>
<b>TOTAL EXPENDITURES</b>	<u>848</u>	<u>11,033</u>	<u>11,881</u>
<b>NET CHANGE IN FUND BALANCES</b>	18,287	(8,051)	10,236
<b>FUND BALANCE - BEGINNING</b>	<u>107,029</u>	<u>57,970</u>	<u>164,999</u>
<b>FUND BALANCE - ENDING</b>	<u>\$ 125,316</u>	<u>\$ 49,919</u>	<u>\$ 175,235</u>

**CITY OF LEMMON**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED DECEMBER 31, 2011**

Federal Grantor/Pass-Through Grantor Program or Cluster Title	Federal CFDA Number	Expenditures 2011
<b>U.S. DEPARTMENT OF TRANSPORTATION:</b>		
Highway Safety Cluster:		
Indirect Federal Funding:		
South Dakota Department of Public Safety, State and Community Highway Safety	20.600	\$ 6,636
Other Programs:		
Indirect Federal Funding:		
South Dakota Department of Transportation, Airport Improvement Grant (NOTE 2)	20.106	495,900
<b>TOTAL U.S. DEPARTMENT OF TRANSPORTATION</b>		<u>502,536</u>
<b>U.S. GENERAL SERVICES ADMINISTRATION:</b>		
Indirect Federal Funding:		
South Dakota Federal Property Agency, Donation of Federal Surplus Personal Property (NOTE 3)	39.003	1,622
<b>TOTAL U.S. GENERAL SERVICES ADMINISTRATION</b>		<u>1,622</u>
<b>U.S. DEPARTMENT OF HOMELAND SECURITY:</b>		
Homeland Security Cluster:		
Indirect Federal Funding:		
South Dakota Department of Public Safety, Office of Emergency Management, Homeland Security Grant Program	97.067	231
<b>TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY</b>		<u>231</u>
<b>GRAND TOTAL</b>		<u>\$ 504,389</u>

**NOTE 1:** The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City and is presented on the full accrual basis of accounting unless otherwise noted. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the general purpose financial statements.

**NOTE 2:** This represents a major federal financial assistance program.

**NOTE 3:** The amount reported represents 23.3% of the original acquisition cost of the federal surplus property received by the City.